

Message Text

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54

ACTION L-02

INFO OCT-01 EA-06 ISO-00 EB-07 TRSE-00 SCA-01 COME-00

USIA-06 CIAE-00 INR-07 NSAE-00 DOTE-00 FMC-01 FRB-03

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FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 4518

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E.O. 11652: N/A

TAGS: EFIN, TW

SUBJECT: TAX TREATY NEGOTIATIONS AT TECHNICAL LEVEL COMPLETED

1. SUMMARY: ROC AND US TAX EXPERTS COMPLETED NEGOTIATIONS ON INCOME TAX CONVENTION AND AGREED ON DRAFT AFTER DAY AND A HALF MEETINGS AT MOF. US TAX TEAM HEADED BY NATHAN GORDON CARRYING AGREED TEXT BACK TO WASHINGTON AND WILL PREPARE CLEAN COPY OF DRAFT CONVENTION WHICH WILL BE RETURNED TO MOF IN NEAR FUTURE. END SUMMARY.

2. ATMOSPHERE THROUGHOUT NEGOTIATIONS VERY FRIENDLY AND BOTH SIDES DEMONSTRATED FLEXIBILITY IN ORDER REACH AGREEMENT RAPIDLY. MAJOR CHANGES FROM MARCH, 1974 DRAFT INCLUDED DECISION SET FLAT MAXIMUM TAX RATE OF 15 PERCENT ON DIVIDENDS AND DROPPED LOWER RATE IN CASE RECIPIENT CORPORATION OTNS 10 PERCENT OR MORE OF PAYING CORPORATION (ARTICLE 12); REDRAFTING OF ARTICLE 14 ON ROYALTIES TO DISTINGUISH CULTURAL ROYALTIES FROM OTHER TYPES; REDRAFTING OF ARTICLE 17 ON INDEPENDENT PERSONAL SERVICES BY ROC SIDE WHICH AMONG OTHER THINGS REDUCED TAX EXEMPT LENGTH OF STAY FOR ENTERTAINERS FROM 90 TO 30 DAYS AND EXEMPTION PERIOD FOR NON-GOVERNMENT SPONSORED SERVICES FROM 183 TO 90 DAYS; AND ACCEPTANCE MUCH SIMPLIFIED VERSION OF ARTICLE 19 BASED ON OECD MODEL

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CONVENTION.

3. ROC SIDE WILL UPDATE CHINESE VERSION OF TREATY WHICH HAD ALREADY BEEN PREPARED FOR SUBMISSION TO STATE FOR REVIEW.

4. ONCE CLEAN VERSION ACCEPTED BY TREASURY AND MOF, CONVENTION TO BE SUBMITTED TO STATE AND MOFA RESPECTIVELY TO ARRANGE FOR SIGNING.

5. IN AGREEMENT WITH EMBASSY, GORDON ALSO RAISED SEVERAL CURRENT TAX ISSUES WITH MOF: (A) MOF AGREED TO EXCHANGE TO LETTERS BETWEEN EMBASSY AND MOF TO ELABORATE FEBRUARY 1972 AGREEMENT EXEMPTING PROCEEDS FROM SHIPPING FROM TAXATION, BY PROVIDING THAT PRO-RATA SHARE OF LONG DISTANCE SHIPPING PROVIDED BY US COMPANIES WOULD BE TAX EXEMPT EVEN THOUGH FINAL DELIVERY OR PICKUP IN ROC PORTS CARRIED OUT BY NON-US FEEDER SHIPS, E.G. FROM HONG KONG OR JAPAN. NEW ARRANGEMENT TO BE EFFECTIVE FROM BEGINNING OF 1975 WITHOUT PREJUDICE TO RESOLUTION PAST CASES. GORDON TO PROVIDE DRAFT WITH ACCEPTABLE LANGUAGE WHICH WILL BE SENT TO EMBASSY FOR FORWARDING TO MOF OVER AMBASSADOR'S SIGNATURE. SEPARATE BILL OF LADING FOR US SHARE OF SHIPPING WOULD HAVE TO BE PROVIDED. (B) ON QUESTION OF TAX ON INTEREST PAYMENTS TO HOME OFFICES FOR LOANS TO US BRANCH BANKS, MOF INDICATED PRESENT REGULATIONS REQUIRING SUCH PAYMENTS WILL PROBABLY BE CONTINUED IN SPITE OF APPEAL TO EXECUTIVE YUAN BY US BANKS. HOWEVER, VICE MINISTER WANG AGREED MOVE QUICKLY AFTER EXECUTIVE YUAN DECISION TO PROVIDE EXEMPTION FOR BANKERS ACCEPTANCES.

6. COMMENT: GROC CLEARLY ANXIOUS RESOLVE REMAINING DIFFERENCES WITH US ON DRAFT INCOME TAX CONVENTION. ALTHOUGH NO MAJOR PROBLEMS EXISTED WHICH REQUIRE SIGNIFICANT CONCESSIONS, IT WAS NEVERTHELESS APPARENT THAT THERE WAS WILL TO SUCCEED FOR OBVIOUS POLITICAL ADVANTAGE TO BE GAINED FROM BRINGING CLOSER TO FRUITION LONG NEGOTIATIONS ON MAJOR NEW TREATY WITH MAJOR POWER. GROC TEAM KEPT PRESS WELL CLUED IN ON DEVELOPMENTS AND LIMITED OFFICIAL USE

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RECEIVED CONSIDERABLE COVERAGE, WHICH WAS A NEW EXPERIENCE FOR US NEGOTIATORS ON THIS RATHER DRY SUBJECT.
UNGER

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Disposition Date: 28 MAY 2004
Disposition Event:
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